NORTH LANDING
Financial Partners, LLC

Quarterly Model Portfolio Update

April 22, 2019

U.S. Economy & Financial Market Observations

In the first quarter, U.S. stocks and many financial markets around the world notched unusual gains, completing their best calendar quarter since 2009. Rebounding from the equally *adverse* conditions in the 4th quarter of last year, the S&P 500 spiked up **13.7%**. International markets surged **10.3%** and interest rate sensitive assets rose with the Barclays U.S. Aggregate bond index finishing up **2.9%**. Interest rate sensitive stocks also fared particularly well, led by the MSCI U.S. REIT Index, which rose **15.9%.**

The dramatically seesawing market conditions we've experienced during the past six months pivoted in early January with a significant change in stance from the Federal Reserve. Rather than hiking interest rates further and threatening economic growth, Fed Chair Jerome Powell assured the markets that the Fed would halt its effort to tighten financial conditions. This relatively abrupt policy U-turn culminated on March 20th with the Fed announcing that it planned *no* interest rate hikes for the balance of 2019.

There were other positives for markets as well: The federal government shutdown which had started to weigh on sentiment, ended in late January. Signals from the U.S.–China trade talks also turned progressively more positive during the quarter, although they have yet to produce definitive results. Most leading economic fundamentals have remained solid, signaling a modest slowdown in the economy, instead of a recession. Baseline GDP growth appears to be running near 2.6% for the first quarter of 2019 – a slowdown over 2018's pace, but not a reversal. The Conference Board, which compiles the Leading Economic Index (LEI) which consists of 10 components that are predictive of economic activity (or recessions) recently stated that "falling domestic headwinds will likely keep growth above its long-term trend."

Yet one of the most watched Leading Economic Indicators, the shape of the yield curve, recently garnered *significant* attention from markets. The yield curve is said to be "inverted" and signaling recession risk when interest rates on short term bonds exceed the yield on the 10-Year Treasury. On March 22nd, the 3-month/10-year yield did indeed invert for 5 trading days, causing some wobbly markets. The S&P dropped about 2.5% from its intraday high during that brief period. We would note that Campbell Harvey, the Duke University finance professor whose research first showed the predictive power of the yield curve in the mid-1980's stressed that an inversion must last, on average, a full *three months* before it can credibly said to be sending a clear signal about recession risk.

While, eventually, a recession is inevitable, the balance of evidence doesn't point to one being imminent. Analysts and short-term traders have become hypersensitive to any signs a recession may be looming, particularly with the recent, albeit temporary, inversion of the yield curve. The investing public has also taken notice. Google Trends show that Google searches for the word "recession" have jumped 61% over the last six months versus the prior five years.

As we commented in January, these pessimistic undertones that began during 2018's year-end swoon appeared to be overblown with global growth still on a slowed growth path. We would also add, that while uncertainty is inevitable, investors have likely lost much more money trying to prepare for "the next recession that never came" than during actual recessions themselves.

(OVER)

Index	2019 Q1 Total Return
S&P 500 Composite	13.65%
DJ Industrial Average	11.81%
NASDAQ Composite	16.81%
S&P Mid-Cap 400	14.49%
Russell 2000	14.58%
MSCI ACWI Ex U.S.	10.31%
FTSE Emerging Markets	10.41%
MSCI U.S. REIT	15.92%
Barclays U.S. Aggregate Bond	2.94%
Barclays US Corporate High Yield	7.26%
Barclays Global Agg. Bond ($ hedged)	2.99%
Barclays Global Agg. Bond (Unhedged)	2.20%
Barclays Municipal New York Exempt	2.86%
Barclays Municipal	2.90%
Bloomberg Commodity	5.70%

Current Portfolio Stance & Outlook

Our portfolios were well-positioned to capture the upside resulting from the robust Q1 rally that materialized in stocks and bonds. Core Model Portfolios produced total returns during Q1 ranging between **5.1%** and **12.6%**[1].

After completing our semi-annual model portfolio evaluation, we found most asset classes remained close to target weightings, with stocks and bonds rising in sympathy for much of 2019, so far. However, we did identify one area of meaningful over-weighting in our Real Estate Investment Trust (REIT) allocation. In most portfolios, the **Vanguard Real Estate Index (VNQ)** is the representative index of that asset class. After a dismal early-2018 run, we had added to our positions there last April. Since our 2018 trade date, **VNQ** had rebounded substantially, producing an outsized total return of **20.7%** versus the S&P 500's total return of **9.4%**[1].

In more equity-dominant portfolios (those targeting between 65-98% stock exposure), proceeds from our harvesting of REIT profits were deployed into our emerging markets index fund holding, the **iShares Core Emerging Markets Index (IEMG)**. We believe the outlook for emerging markets equities has improved. Underperformance over the last year has also left them bearing attractive valuations: the iShares Core Emerging Markets Index trades at only approximately 12 times prospective earnings (versus about 20 times for the S&P 500) and should continue to benefit from progress to a trade agreement between the U.S and China.

In balanced, less aggressive, portfolios and those with more fixed income exposure, profits from our REIT allocation were added to index positions in both large cap stocks and investment grade bonds. It's worth noting that in taxable account models, that were adjusted in December of 2018 for tax-loss harvesting purposes, no rebalancing or reallocation trades occurred during Q1 to avoid realizing short-term capital gains.

After experiencing a historically unusual rally so far in 2019, we face as many uncertainties in today's financial markets as ever. While valuations have rebounded to what appear to be both historically-sustainable and normal levels, financial markets appear to be more dependent on expectations of low interest rates than ever before. We believe it's likely that the lion's share of gains for calendar 2019 have already been delivered and patience will become more important for the balance of the year. As Benjamin Franklin once said, *"Genius is nothing but a greater aptitude for patience."* We continue to take a patient approach to portfolio rebalancing using evidence-based portfolio management techniques. As always, we encourage you to look through short-term uncertainty and volatility to focus on the controllable: your personal economic planning with your NorthLanding advisor.

We welcome and look forward to hearing your questions regarding this most recent update and about any important changes to your financial outlook before our next personal review.

NorthLanding Financial Partners, LLC

We are committed to empowering our clients to discover and direct action toward their most important financial goals. Our advisors have over 100 years of combined experience and advanced credentials in counseling clients to develop and implement strategies to meet their personal and family financial objectives.

We welcome your feedback!

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NorthLanding Financial Partners, Investment Direction Committee

1.Investment index and NLFP portfolio performance data through 3/31/2019 is provided by Morningstar and believed to be accurate as of the date of this publication, gross of any advisory fees. Other sources include the Wall St. Journal, FactSet Research, and The Conference Board. All investment strategies including diversified asset allocation have risk. Past performance of our investment approach, and component holdings does not guarantee future results. Advisory services are offered through NorthLanding Financial Partners, LLC, ("NLFP") Registered Investment Advisor. While all data is believed to be from reliable sources, accuracy and completeness are not guaranteed.